

Tax Commission

IDAHO

USE TAX



An
Educational
Guide to
Sales Tax in
the State
of Idaho

This brochure is intended to help businesses, organizations and individuals understand how use tax applies to them. This information is based on the laws and rules in effect on May 1, 2003.

WHAT IS USE TAX?

Use tax is a tax on goods that are put to use in Idaho. If sales tax has not been paid on goods that are used (or stored for later use), the person who uses or stores the goods in Idaho owes a use tax (unless the goods are held for resale).

IS THIS SOMETHING NEW?

No. Idaho's use tax laws have been in effect since 1965. Every state that has a sales tax also has a companion use tax. If there was no use tax, buyers would be encouraged to shop out of state to avoid paying tax.

Failure to pay use tax is one of the most common errors found when businesses are audited by the Idaho State Tax Commission.

WHAT IS THE USE TAX RATE?

The Idaho use tax rate is the same as the sales tax.

WHAT ARE THE MOST COMMON SITUATIONS WHERE USE TAX APPLIES?

- 1) **Nontaxed purchases:** Use tax most commonly applies when goods are purchased from a retailer who does not collect sales tax from the buyer. The buyer owes use tax, whether the retailer is out of state or in Idaho.

Example: You order office supplies from a retailer in a neighboring state. The retailer does not collect sales tax on the supplies that are shipped to you. When they arrive in Idaho, you owe use tax.

- 2) **Withdrawing resale inventory:** Use tax applies when a retailer takes resale merchandise from his shelves to give away or to use himself.

Example: A cleaning supply retailer does not pay sales tax when he buys inventory intended for resale. Later, when he removes items from his resale stock to clean his store, he owes use tax on those items.

Example: A lumber store owner removes two-by-fours from his nontaxed resale inventory and gives them to his church or a customer. He owes use tax. ("Using" an item includes giving it away to someone else.)

3) Transfer of business assets and goods:

When a business moves to Idaho or comes here to do work, it owes use tax on the assets and supplies it brings with it (unless it has paid tax to another state). See Brochure #6 — Out-of-State Businesses.

Example: An Oregon contractor comes to Idaho to build a road. He brings job materials he bought in Oregon without paying tax. He owes use tax on the materials.

HOW IS THE AMOUNT OF USE TAX DETERMINED?

The amount of use tax is based on the fair market value of the item when it first becomes taxable. A recent purchase price of the item is usually its fair market value.

In the previous examples, the Idaho business owners who buy nontaxed goods or withdraw them from a resale inventory owe use tax on the price they paid for the goods. The Oregon contractor owes use tax on the purchase price of his job materials.

WHAT CHARGES ARE PART OF THE TAXABLE PURCHASE PRICE?

When you make a purchase, the taxable purchase price includes:

■ **Transportation to the retailer:** Freight-in charges to get the goods to the retailer, who passes them on to you.

■ **Manufacturer's or importer's excise tax:** Federal taxes that are levied before the retail sale level, but which may still appear as a separate item on your purchase invoice. **Examples** include taxes on tires, automobiles, beer, wine, cigarettes and gasoline.

- **Incidental services** performed by the seller as part of the sale, such as a charge for assembling the item.
- **Manufacturer's coupon or rebate** deduction amounts: rebates or discount price coupons offered by the manufacturer of the product, like those found in cereal boxes. For special rules that apply to motor vehicles, see Brochure #14.
- **Prompt payment discounts:** Discounts that encourage you to pay your bill within a certain amount of time, such as a 2% discount if a bill is paid within 10 days.

Example: Tom orders tires for his Idaho business from Jim's Tire Store in Oregon. Tom has a \$5 manufacturer's discount coupon for the tires. Jim's Tire Store does not have the tires in stock and has to order them from the manufacturer in Detroit. When Tom picks up the tires at Jim's, he charges them to his account. Later, Tom gets a bill that reads:

Four tires at \$80 each	\$ 320
Manufacturer's excise tax	\$ 12
Freight-in from manufacturer to retailer	\$ 27
	<hr/>
	\$ 359
Less manufacturer coupon	<\$ 5>
Total due	\$ 354

(If paid by the 10th, take a 2% discount and pay only \$347)

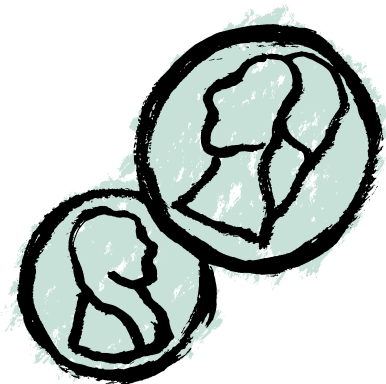
Since Jim's store is in Oregon, Jim does not charge Idaho sales tax. Tom owes use tax on \$359, even though he paid the bill by the 10th and only paid \$347 for the tires. All of the separate charges are defined by the law as part of the taxable purchase price.



WHAT SEPARATELY-LISTED CHARGES ARE NOT TAXABLE?

None of the following charges or deductions are taxable, if they are listed separately on your purchase invoice:

- **Trade-in allowances** for merchandise traded in on other goods, whether in part payment, full payment, or exceeding full payment. *(The trade-in adjustment is allowed only on purchases made from a retailer and not on transactions between individuals.)*
- **Trade discounts** offered by a retailer. This discount can be in the form of a coupon, a marked-down price, or a discount offered to a good customer. This does not include the prompt payment discount or any coupon or rebate offered by a manufacturer; these two discounts are taxable.
- **Federal excise taxes levied at the retail level.** These taxes are either levied on the retailer or the buyer. They include the federal luxury tax on autos and the federal tax on large tractor/trailer units. These are retail-level federal excise taxes.
- **Shipping and handling charges** for shipping the goods directly to the buyer.
- **Installation labor**, such as the labor to install parts in your car. Labor to repair goods you own is not taxable. However, the parts are taxable.
- **Charges for insurance** on goods you rent or buy.
- **Interest, carrying charges, service charges or financing charges** on goods you buy. Special rules apply to leases.



Here are some examples to help explain these nontaxable amounts:

Example: Tom buys a stove from Fred's Appliance Store for \$800. Fred agrees to give Tom a \$250 trade-in allowance on his old stove. Fred's Appliance Store agrees to deliver the stove to Tom for an additional \$25. Fred's fails to charge Tom sales tax. Tom owes use tax on \$550 (\$800 minus the \$250 trade-in). The \$25 delivery fee is not taxable.

Example: Tom's Construction buys \$1,000 worth of lumber for an Idaho job from Fred's Building Supply store in Montana. Tom is a regular customer, so Fred gives Tom a 15% trade discount of \$150. Tom owes use tax on \$850 (\$1,000 - \$150).

Example: Mary buys a diamond ring for \$15,000 from a dealer in New York. The dealer agrees to ship the ring to Mary. She agrees to pay the bill over six months with 18% interest. She is late on one of her payments and has to pay a \$5 late charge. Mary must pay tax only on the \$15,000. All the other separately-listed charges are not taxable.

SUMMARY

Taxable

- Services agreed to be rendered as part of the sale of tangible property
- Freight-in to retailer
- Manufacturer refund coupons
- Manufacturer rebates on other goods
- Discounts for prompt payment
- Trade deductions between individuals
- Federal excise tax levied before the retail level

Nontaxable

- Installation charges
- Freight-out direct to buyer
- Retailer coupons
- Manufacturer rebates on motor vehicles
- Trade discounts
- Trade-in allowances given by retailer
- Federal excise tax levied at retail level
- Finance, carrying or interest charges

WHAT IF I PAY TAX TO ANOTHER STATE WHEN I MAKE A PURCHASE?

If you buy goods from an out-of-state retailer who collects another state's sales tax on the transaction, you do not owe use tax to Idaho *unless* the amount paid to the other state is less than the amount owed to Idaho. In that case, you must pay Idaho the difference between the two amounts. However, if the other state's amount is higher than Idaho's, you cannot get a refund of the difference between the two states' taxes.

You cannot claim credit for tax paid to another state unless the other state's law required you to pay the tax. Tax paid in error does not qualify.

HOW DO I REPORT USE TAX?

If you are a retailer or wholesaler, you can record the use tax you owe on line #4 of your sales tax returns.

If you do not file sales tax returns, you can get a use tax permit (which allows you to file use tax returns) to pay the tax. Even if you have no items subject to use tax in a particular month, you must still file a use tax return by the due date for that month.

To get a use tax permit, you must fill out a form IBR which is available from any Idaho State Tax Commission office. There is no fee for this permit.

WHEN IS USE TAX DUE?

Use tax is due for the month in which the goods are first stored, used or consumed in Idaho.

HOW DO I KEEP TRACK OF TAXABLE PURCHASES?

You should have some record-keeping method to account for purchases or uses subject to use tax. Many businesses keep a use tax accrual account to post the tax due at the same time purchases are posted. The total of the accrual account is used to calculate use tax for the reporting period.

Some businesses keep a use tax worksheet that lists the purchases (and inventory withdrawals) on which they owe use tax.

Whatever method you use, you must keep the records at least four years.

WHAT IF I AM NOT A BUSINESS OWNER, BUT STILL OWE USE TAX?

Individuals often buy items from mail-order catalogs or in border states that do not have a sales tax. Use tax is due when these items are first brought to Idaho, even if you are not a business owner.

Individuals can pay this use tax once a year, when they file their Idaho Individual Income Tax Return. There is a line on the Idaho tax return that allows you to record the amount of use tax you owe. See the instructions with the income tax return for information on how to use this line.

Only individuals can pay use tax on an annual income tax form. Businesses and organizations must pay use tax on a sales and use tax return.

Individuals who are not required to file an income tax return should contact the Idaho State Tax Commission to arrange payment of the use tax.

WHAT ARE THE MOST COMMON TRANSACTIONS IN WHICH A BUSINESS, ORGANIZATION OR INDIVIDUAL MIGHT OWE USE TAX?

Here are some **examples**:

- Catalog or mail-order purchases, and purchases of subscriptions or publications (many of these firms do not collect Idaho sales tax);
- Buying goods in a nontaxing state to bring back to Idaho;
- Buying from an out-of-state seller who ships or delivers the goods to you in Idaho;
- Using nontaxed goods in a taxable activity, such as a farmer using oil in his pickup that he bought tax free for his tractor;
- Resale merchandise used or given away by a retailer or wholesaler;
- Fuels used in off-road equipment, if fuels tax was not paid, or was refunded. Special rules apply to fuels used in logging trucks and production equipment.

CONTRACTORS AND USE TAX

Idaho law says contractors are the “consumers” of all equipment and goods they use, including all construction materials that become the landowner’s property. This means that the contractor who installs the material must ensure that sales tax is paid to suppliers. If not, he must pay use tax.

FOR MORE INFORMATION, READ:

Brochure #40

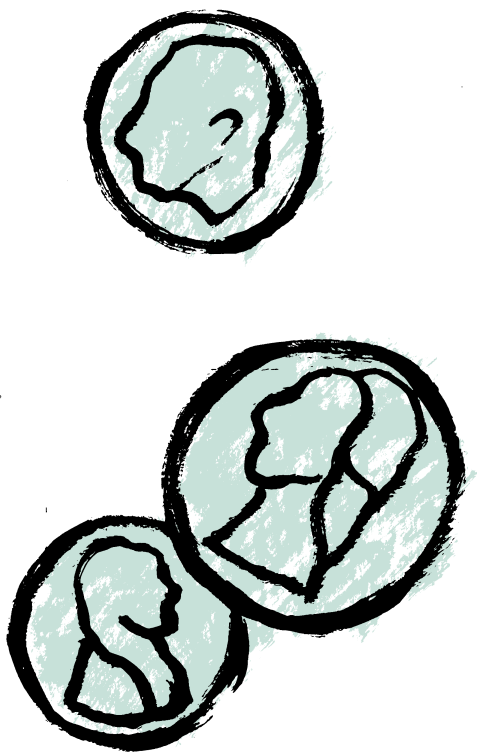
Rule 72

Rule 73

Contractors

Application and
Payment of Use Tax

Tangible Personal
Property Brought or
Shipped to Idaho



This brochure was prepared by
the Idaho State Tax Commission.
It does not provide comprehensive
explanations of Idaho tax laws
or rules. Specific questions
should be addressed to the
Idaho State Tax Commission
or a qualified tax practitioner.

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